FISCAL NOTE

Bill #: **HB0272**

Title: **Small business tax incentive**

Primary Sponsor: **Billie Krenzler**

Status: As introduced

Sponsor signature Date

Dave Lewis, Budget Director Date

Fiscal Summary

	FY2000 Difference	FY2001 Difference
Expenditures:		
General Fund	$107,317	$42,401
Revenue:		
General Fund	(468,861)	(616,778)
State Special Revenue	(48,490)	(63,787)
Net Impact on General Fund Balance:	**($576,178)**	**($659,179)**

- **Note: FY1999 revenue loss is $155,533 general fund and $16,085 state special. FY1999 general fund expenditures are $77,600.**

Yes	No		Yes	No	
X		Significant Local Gov. Impact	X		Technical Concerns
	X	Included in the Executive Budget	X		Significant Long-Term Impacts

Fiscal Analysis

ASSUMPTIONS:

1. The first $50,000 of market value will be exempted from class 8, business equipment only.
2. The taxable valuation rate will be 6% in tax year 1999 and future years.
3. Small business was defined as a business with 49 or less employees.
4. 97% of businesses are small businesses. This percentage was estimated by using the number of Montana businesses with 49 employees or less as a percent of the number of total Montana businesses (Source: U.S. Census bureau, *The Official Statistics*, Nov. 20, 1998.)

5. The number of new small businesses in Montana was estimated by using the number of all new businesses firms in 1997 (3,257) and multiplying by the 97% (3,257 x 0.97 = 3,169). (Source for number of new business firms: Montana Department of Labor & Industry, ***Montana Labor Market Information: Statistics in Brief September 1998***.)
6. The percent of new small businesses as compared to total class 8 business equipment owners (83,287) is then calculated as 3.8% (3,169 / 83,287 = 3.8%).
7. Thirty eight percent of class 8 property taxes are paid in FY1999 and 62% in FY2000 for tax year 1999 assessments. Thirty eight percent of class 8 taxes are paid in FY2000 for tax year 2000 assessments and 62% in FY2001 for tax year 2000 assessments. Thirty eight percent of class 8 taxes are paid in FY2001 for tax year 2001.
8. The taxable value loss of exempting the first $50,000 or less of the market value of class 8 property of a new small business by owner by county is $2,329,952 for tax year 1998.
9. The growth rate for class 8 property is 3.4%.
10. For every 1,000 businesses granted the $50,000 business equipment exemption the taxable value loss equals $735,233 in tax year 1999, $760,230 in tax year 2000, $786,078 in tax year 2001, $812,805 in tax year 2002 and $840,440 in tax year 2003.
11. The failure rate of the businesses qualifying for this $50,000 business equipment exemption is 20% per year.
12. The loss in tax revenue due to exempting the first $50,000 of market value of class 8 property on which the 1.5 vo-tech mill is levied is $1,267 for FY1999, $3,818 for FY2000 and $5,023 for FY2001.
13. The loss in tax revenue due to exempting the first $50,000 of market value of class 8 property on which the 9 mill state assumption of welfare is levied is $6,333 for FY1999, $19,090 for FY2000 and $25,113 for FY2001.
14. The loss in tax revenue due to exempting the first $50,000 of market value of class 8 property on which the 95 mill is levied is $154,267 for FY1999, $465,043 for FY2000 and $611,755 for FY2001.
15. The loss in tax revenue due to exempting the first $50,000 of market value of class 8 property on which the 6 mill university mill is levied is $9,752 for FY1999, $29,399 for FY2000 and $38,674 for FY2001.
16. The loss in tax revenue due to exempting the first $50,000 of market value of class 8 property to local governments is $461,660 for FY1999, $1,391,693 for FY2000 and $1,830,745 for FY2001.
17. The reduction in taxable values will cause school districts to increase GTB levies in FY2000 to maintain minimum budgets required under section 20-9-308(1)(a), MCA. (See technical note #4). The higher levies will increase the amount of state GTB aid by $107,317 in FY2000 and by $42,401 in FY2001. In subsequent years the statewide GTB will be adjusted resulting in minimal changes in state GTB aid.
18. The estimated taxable value loss under this bill is determined by exempting the first $50,000 of market value by assessor code of class 8 property that has a taxable valuation rate of 6% in 1998. That code is specific to a business that generates a separate tax bill. Using the assessor code would eliminate the need to create a new record segment in BEVS (Business Equipment Valuation System), thus eliminating additional expense.
19. During FY1999, it is estimated this proposal will require 1,040 programming hours at a contracted rate of $60 per hour to modify the current personal property system (BEVS) to implement this proposal, plus an additional 12 hours to re-cost the file at a cost estimated to be $1,200. There would also be an additional $6,000 in computer processing costs.
20. Department of Revenue personnel would still be required to track all personal property, and taxpayers would still be required to report all personal property. This bill would increase the department's workload with the processing of applications and the audit work necessary to identify qualified applicants.

21. Taxpayers will be required to submit an application to qualify as a new small business. Currently there are approximately 83,000 personal property records. 3.8% of the personal property records potentially will qualify for the abatement program. This will require approximately 3,200 forms to be printed and mailed. Form development and printing of the form is $0.20 and mailing of the form is $0.33.
22. The following are the estimated FY1999 expenditures: Personal Services (programming) 1,040 hours x $60/hour=$62,400; Computer Processing Expense=$6,000; Re-costing of the file 12 hours x $100/hour =$ 1,200; Application forms and mailing =$1,700; Meeting room rental for Public Information Meetings @56 locations x $100/meeting =$5,600 and Staff Training Meetings @7 locations x $100/meeting = $700. Total FY1999 Expenditure Estimate = $77,600.

FISCAL IMPACT:	FY2000 Difference	FY2001 Difference
Expenditures:		
School GTB	107,317	42,401
Funding:		
General Fund (01)	107,317	42,401
Revenues:		
General Fund (01)	($468,861)	($616,778)
State Special Revenue (02)	(48,490)	(63,787)
Net Impact to Fund Balance (Revenue minus Expenditure):		
General Fund (01)	($576,178)	($659,179)
State Special Revenue (02)	(48,490)	(63,787)

EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:
Local governments would lose $461,660 in FY1999, $1,391,693 in FY2000 and $1,830,745 in FY2001.

LONG-RANGE IMPACTS:
The proposal results in an increased reduction in revenue in each of the first five years of implementation, leveling off after the fifth year. Total tax loss in the first five years of implementation of this proposal is $633,278 in FY1999, $1,909,044 in FY2000, $2,511,310 in FY2001, $3,026,581 in FY2002 and $3,473,393 in FY2003. The summed total loss for the first five years equals $11,553,606.

TECHNICAL NOTES:
1. This bill amends 15-6-138 (Class 8 property) to provide for a small business property tax abatement. It is assumed the abatement is applicable to only Class 8 property and that the Department of Revenue would continue to be required to tax other business equipment, if applicable, to the qualified business.
2. It would require an application process or access to information contained in 15 U.S.C. 632(a) to determine qualified businesses for the abatement.
3. This bill is unclear whether this abatement applies to the business equipment owned by the business in each county; or the total value of business equipment owned by the company.
4. School districts are required to budget at the BASE level under section 20-9-308 (1)(a), MCA. With the reduction in taxable values under this bill, provisions of CI-75 will require voter approval to increase tax

rates to continue to meet the minimum budget requirement. If voters do not approve the increase, the district will be in violation of section 20-9-308, MCA.

5. Due to the retroactive effective date, programming changes to the department's county computer systems and the taxpayer application process will not occur until late in FY1999 or early FY2000. The programming changes will occur after the department has processed annual personal property returns and local governments have begun to collect revenues based on those returns. The department will be required to develop a small business application form, inform taxpayers of the change in the law and then process the form. Under the current law this would have to be completed by the second Monday in July when the department has to certify the taxable values to the counties.
6. Section 15-10-202, MCA, requires the department to certify taxable values and millage rates by the second Monday in July. Under this proposal, this requirement could not be met in FY1999. Amendments would be required to move statutory dates or change the applicability date.
7. A clarification of a small business should be included in the bill. The definition will help clarify the sponsor's intent and provide clear guidelines to the department and taxpayer as to who qualifies.